

Considering whether to insource or outsource services

This article summarises the key elements of the Institute for Government's report.

28 September 2020

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In June 2020, the [Institute for Government produced a report](#) which discussed when public services should be brought back in-house, and how these should be brought back in, or whether outsourcing is the correct option for the service being provided. This article summarises the key elements of the Institute for Government's report.

Local authorities and government departments have increasingly been interested in bringing contracts in house, and in particular during the Covid-19 pandemic there has been a greater need for government intervention. An example of this is shown by the NHS that has come under increasing pressure to provide care to a much higher number of individuals. Where the NHS lacked the capacity to carry out this service, they negotiated with private hospitals to assist them with the care of coronavirus patients. This is a clear example of integration of the NHS service with the private sector, in effect bringing the private sector service under government control.

Outsourcing, which is subject to a full procurement process, has its advantages, there is greater public sector efficiency and it can ensure a comparison of different options to choose from as long as a range of bidders are involved in the process, this competition in theory reducing price. However, in some cases outsourcing has proven to not be the better option, for example outsourcing of probation services for low and medium-risk offenders was launched in 2015 but in June of this year, the Ministry of Justice announced all of these probation services would be brought back in house. The Institute for Government states that this is due to outsourced services being "*consistently poor quality and unreliable*", it also cited that the 'payment by result' model which was in use meant that "*many services were loss making...cutting corners to reduce losses*". There was a failure to procure services which successfully rehabilitated offenders into society and ensured public safety. It is therefore clear that this is better managed in-house, where more successful results can be achieved and there is greater flexibility to deal with the service.

When insourcing, authorities should be guided by the procurement regulations and rules, but do not have to run a full procurement process. Instead those responsible must scrutinise the process and perform their role correctly. All services, whether outsourced or insourced, must be operated under a 'best value duty', to ensure 'continuous improvement in the way in which functions are exercised'. It has been suggested by the Institute for Government that there are four conditions where insourcing is likely to be the best option:

- Where the market from which the government is buying a service is unhealthy or not competitive;
- Where the government needs flexibility in managing the service to be able to make any necessary changes due to policy and budget priorities;
- Where the government lacks commercial skills to procure or manage a contract successfully;
- Where a service could be improved, or savings made for government, by integrating it with another service.

Even if these conditions are present, this does not mean a public body should insource, but the advantages and disadvantages of this, and of outsourcing, should be considered. There are advantages to insourcing, potentially reduced costs, greater flexibility for the contracting authority, and less duplication by management. Although the choice to insource seems to be a recent growing trend, it should be noted that over the last four decades, the volume of contracts outsourced increased, and data of local government spending does not back up the trend of increased insourcing. More recently however, it has been suggested that stricter testing needs to be put in place

when deciding whether to outsource, in order to prevent outsourcing failures. The Institute for Government stated the “*pandemic has shown many existing outsourcing models to be unsustainable during a crisis*”, which strengthens the argument for bringing services in house, or the government holding more responsibility. So far, throughout the Covid-19 pandemic, the government has not largely assisted providers of outsourced services and therefore, may need to intervene more as and when the longer-term effects of the pandemic become more visible.

In deciding whether to bring services back in house, neither option should immediately be dismissed, each instance should be considered on its own merits. Would outsourcing or bringing the service in-house produce more benefit for the contracting authority, or does it make more sense to procure and find a private firm to fulfil the contract? Contracting authorities should consider whether or not they can provide a better service, and as long as they have the resources and expertise to provide this service then insourcing is an option. If this is not the case, and similar services have successfully been outsourced to private providers who have a different skillset and expertise to contracting authorities, then it makes sense to outsource to the providers.

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